

EXHIBIT 5

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appliance
servicesstorage and
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solutionsdistribution
services

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MANAGEMENT AND
DIRECTORSSTOCK CHART/
QUOTE

PRESS RELEASES

ANALYST
COVERAGEREPORTS AND
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CALLS

FAQS

REQUEST
INFORMATION[Home: Investor Relations: Press Releases](#)

press releases

[Back](#)**Network Engines Announces Amended Storage Component Distribution Agreement With EMC Corporation**

CANTON, Mass.--(BUSINESS WIRE)--Dec. 10, 2003--Network Engines, Inc. (NASDAQ: NENG), a leading development, manufacturing and distribution partner for storage and security software and network equipment providers, today announced that its distribution agreement with EMC Corporation has been amended, effective January 1, 2004. The amendment extends the term of the agreement until the end of 2005 and provides for increased costs to Network Engines relating to the sale of EMC-approved host bus adapters (HBAs). TidalWire, Network Engines' distribution operation, has been an authorized distributor of EMC-approved HBAs since 1997.

To date, sales of EMC-approved HBAs have provided a substantial portion of the revenue generated from the company's distribution operation. Because of the amendment, there will be a decline in the gross profit related to the sale of EMC-approved HBAs, which will in turn have a negative impact on the company's distribution operations gross profit. This decline in distribution operations gross profit is expected to have a negative impact on consolidated gross profit and operating margins beginning in the quarter ending March 31, 2004.

"The sale of EMC-approved HBAs continues to be an important part of our distribution strategy, and by controlling our costs effectively we believe it will continue to contribute to our bottom line," stated John Curtis, President and Chief Executive Officer of Network Engines. "We are aggressively pursuing our long-term growth strategy, focusing on partnering with independent software vendors (ISVs) and network equipment providers to develop, manufacture and distribute storage and security networking server appliances. The sale of EMC-approved HBAs along with the server appliances we have begun to develop and distribute with our ISV partners will enable us to continue to cultivate relationships with our channel of over 400 value-added resellers and systems integrator customers."

"The amendment will reduce our gross profit on the sale of EMC-approved HBAs to be more in line with our gross profit on the distribution of other third party storage networking products, which has ranged from 7% to 12% of net revenues," stated Doug Bryant, Vice President of Finance and Administration and Chief Financial Officer of Network Engines.

The company is currently evaluating the impact of the amendment on both its EMC-approved HBA business and its distribution operations to determine if there has been any impairment of the goodwill and intangible assets associated with the acquisition of TidalWire. The current book value of these assets is approximately \$12.1 million. Based on the effective date of the amendment, except for the possible non-cash impairment charge related to goodwill and intangible assets, Network Engines is not changing the guidance that it issued on November 6, 2003 for the quarter ending December 31, 2003.

About Network Engines

Network Engines (NASDAQ: NENG) is a leading development, manufacturing and distribution partner for storage and security software and network equipment providers. The Company works with its software partners to develop, manufacture, and distribute server appliances for mission-critical storage and security networking applications. Network Engines' distribution operations offer a full complement of server appliances, related products and components to over 400 value-added resellers and systems integrators who provide storage and security networking solutions to the enterprise. Headquartered in Canton, Massachusetts, Network Engines was founded in 1997. For additional information on the Company's products and services visit www.networkengines.com.

Safe Harbor for Forward-Looking Statements

Statements in this press release regarding Network Engines' future financial performance including statements regarding gross profit, operating margins and asset impairment charges and any other statements about Network Engines' management's future expectations, beliefs, goals, plans or prospects constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company's actual results could differ materially from those stated or implied in forward-looking statements due to a number of factors, including those factors contained in the Company's most recent Annual Report on Form 10-K for the year ended September 30, 2002 and most recent Form 10-Q for the quarter ended June 30, 2003 under the section "Factors That May Affect Future Operating Results" as well as other documents that may be filed by the Company from time to time with the Securities and Exchange Commission. Forward-looking statements include statements regarding the Company's expectations, beliefs, intentions or strategies regarding the future and can be identified by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will," and "would" or similar words. The Company assumes no obligations to update the information included in this press release.

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"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding Network Engines's business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's Annual Report or Form 10-K for the most recently ended fiscal year.